

Remarks by Distinguished Guest Speaker
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SEC. TOM VILSACK: [Introduction] I am really honored to make this introduction today. As we all know, these are extraordinary economic times. The state of the economy is a concern to every single American. And President Obama has put together a team of extraordinary economic minds to lead us through these challenging times.

The president told the American people this week in his address to the Joint Session on Tuesday that we will rebuild, we will recover, and the United States of America will emerge stronger than before.

Well, heading this massive recovery effort is the President's leading economic advisor, Dr. Lawrence Summers, who is the Director of the White House National Economic Council. Larry Summers' career is one of decades of distinction in many fields: in government, in the academic world, in research, teaching, and formulating domestic and international economic policies.

Until January he was the Charles Eliot University Professor at Harvard University. He had served as Harvard's 27th president, and he was the 71st Secretary of the Treasury during the Clinton Administration following earlier service at the Department in the highest levels. His list of contributions and distinctions is far too great to detail, but let me add that he was the Chief Economist for the World Bank. He's been recognized at the highest levels for his research contributions. He was the first social scientist to receive the National Science Foundation Alan T. Waterman Award for Outstanding Scientific Achievement.

Perhaps I might add to the formal introduction that we were given for Larry. He is a dedicated public servant. If you think about the fact that he had a comfortable life on a great university campus teaching young people, and he was called once again by his country, and he responded to that call in the most difficult of times.

Ladies and gentlemen, I can tell you, having watched Larry in a number of different contexts, we are very, very fortunate that he is at the helm helping President Obama steer us through these difficult and trying times.

And with that, it's my pleasure and honor to introduce to you, Dr. Summers.

[Applause]

DR. LARRY SUMMERS: Tom, thank you very much for those kind words. There are some consolations in government service. One is you get introduced a little bit more graciously.

[Laughter]

It wasn't so long ago that I was introduced by a guy who said, 'Larry, do you know what it takes to succeed as an economist?' And I said, 'No.' And he said, 'An economist is someone who's pretty good with figures but does not quite have the personality to be an accountant.'

[Laughter]

That was in Moscow. And no one got the joke.

[Laughter]

Actually, as I listened to Tom's kind words I was reminded of the story of how Lyndon Johnson used to respond when he was introduced in a generous way: 'I wish my parents had been here for that,' he would say. 'My father would have appreciated it, and my mother would have believed it.'

[Laughter]

Let me say in all seriousness, one of the greatest joys of serving in the Obama administration is working for a truly remarkable president who I believe has the capacity to transform this country. The other great joy is the team of which I have a chance to be a part. And that team has no one with more energy, expertise, and dedication in the area to which the President has assigned them than my friend, former governor, Tom Vilsack. We have a great Agriculture Secretary.

[Applause]

The last time a Harvard man talked about agriculture was when Michael Dukakis advised the people of Iowa to consider a focus on Belgian endive.

[Laughter]

I am therefore not going to focus my remarks on agriculture because I suspect all of you know a lot more about the land and about farming than I do. What I want to do instead is speak frankly about our economic inheritance, our economic challenge, our economic policies, and our economic future.

No president since Franklin Delano Roosevelt has inherited so difficult an economic situation: 3.6 million jobs lost last year, the economy in its most rapid decline since the Second World War, a budget deficit of a trillion dollars, and forces of distrust and anxiety

so great that at some points in recent months the interest rate has actually been negative as people paid the government to store their money; an infrastructure that in too many places has started to decay, and fundamental investments in our country that have declined to the point where we now lag most of our competitors in the fraction of our kids who graduate from college, or what life expectancy is for a child born today.

It is a daunting set of challenges. But it is the set of challenges that as John Kennedy famously said: “Man’s problems were made by man; it follows that they can be solved by man.”

These are not problems of our potential. We have the most productive workers in the world. We have the best natural resources of any major nation. We have the capacity to innovate and apply the science that is the wellspring of prosperity in a modern economy more than any other nation. We have a resilience of a market system that is unmatched by the much more planned systems of Europe or Asia. And we have a strength that comes from the tradition of America and the diversity of the American people and its ability to connect to any other part of the world that is not matched by that of any other country.

And so our problem is not that we cannot do it. Our problem is that our economy is falling far short of its potential. And it is that shortfall from potential that is both our biggest challenge and ironically the greatest source of optimism, because what we must do now is we must restore our capacity to produce at the potential of this economy. We must restore our potential to earn as we can earn. And when we do that, we can reap large dividends indeed.

What’s going on in the American economy? You could make very complex economic theories, and my colleagues at the academy will study the events of the last two or three years for the remainder of their professional lifetimes. I like to think about it this way. Usually economies are self-stabilizing. There’s too much wheat, the price of wheat goes down; more people demand wheat, fewer people plant wheat, the market re-equilibrates. The economy slows down, the Fed lowers interest rates, credit is more available, more people invest, the economy speeds up, and the economy self-equilibrates. .

Occasionally, two or three times a century, that self-equilibrating mechanism breaks down, and you have instead vicious cycles. Prices fall, people get margin calls, people get foreclosed, they sell, prices fall faster, and the thing spins out of control. Institutions lose capital, they don’t lend, asset prices decline, institutions lose more capital, and the cycle goes on.

A weaker financial system means less lending, means a weaker economy, means fewer people can pay back, and means a weaker financial system. A weaker American economy means a weaker global economy, means a weaker American economy. Distrust means lack of confidence, means distrust, means withdrawal, means distrust. These vicious cycles come together to reinforce each other, leading to a downwards vortex—not because something is fundamentally wrong, but because just as everyone becomes

alarmed if everyone tried to leave this room quickly, something very unfortunate would happen. But if everyone left a little more slowly, there would be no problem.

It's those kind of vicious cycles that Franklin Roosevelt talked about when he famously said that "what we have to fear is fear itself." And it is those kinds of vicious cycles that we have to address today and convert them to virtuous circles.

And that is what President Obama's policies will do. He will intervene in the key processes to start to turn things around.

There are two primary thrusts of our policy, and they respond directly to the diagnosis I have just offered. A weaker economy causes a weaker financial system, causes a weaker economy. How do we stop that cycle? By directly strengthening the economy and by directly repairing the financial system. And that's what President Obama is seeking to do.

Start with the economy. We lost 600,000 jobs last month. We lost 500,000 jobs the month before. If we keep losing jobs at that rate, it's going to be very hard to fix anything else because of the losses of income that will result. That's why President Obama called within a month of his election for the largest program of job creation and demand stimulus in the history of our country—because he knew that we had millions of people who need to work and enormous amounts of work that needed to be done, and that they needed to be brought together. And that's what the Reinvestment and Recovery Act did, the largest such expansion program in our history.

And \$800 billion is an abstraction, but here are some things that are not: increased paychecks that workers will feel within two months; cops who were about to be laid off who are not going to be laid off because their community will receive money, and it will receive money imminently; and shovel-ready projects across this country that were being cancelled that now can go forward because the funding is available.

Demand rapidly to create jobs in this economy so those very processes I was describing can work in the opposite direction. I am saved from unemployment; therefore, I am in a position to spend more money; therefore, others are in a position to have higher incomes; therefore, they spend more money; therefore, banks get repaid; therefore, they are in a position to lend. And the process reverses itself

Now to be sure, the first part of what it's about is that there are millions of people who need work. And the President's program will create, according to most estimates, 3 to 4 million jobs. But there's also enormous amounts of work that needs to be done.

The President's program is going to assure that we double renewable energy in this country within three years, that we do something that's long overdue:

75 percent of federal buildings will be weatherized within the next two years.

That with lagging road construction, lagging highways, lagging sewer systems, we make the largest infrastructure investment in the spine of our economy since the Interstate Highway System was built in the 1950s.

That we look at a situation that if you actually think about it is so remarkable in America that the average grocery store is more intensive in its use of information technology than the average hospital, and move towards a computerized medical record for every American so as to prevent medical errors, so as to save costs, and so as to save us all needless and painful tests.

We will make the largest investment in improving education, and in particular in modernizing our schools, than we ever have.

When I was Treasury Secretary, every time I visited another city, I used to go visit a school and talk about financial literacy because it seemed to me that we at Treasury were too often consumed with the abstractions of money. And I wanted to touch and feel something real. And it was a remarkable set of experiences. Not always a happy one. I remember one teacher said to me in Oakland, "Mr. Summers, how can we tell our kids that there's nothing in the world more important than their education if we can't make it so that the paint stays on the wall and is not chipping off the wall of their school? How can we tell them that the country's future depends on their commitment to science and technology when the ventilation system in this school has meant that if you went to chemistry lab and you stayed in it for more than 30 minutes you were almost sure to get sick?"

It's not right. It's not right. It can be changed. Now at a time when we have millions of people unemployed is the time to change it by putting people back to work. And we will.

Work that needs to be done, people who need the work, supporting the purchasing power of Americans -- this is the first part of the President's program. It passed within a month of his taking office. It will last two years.

Yes, it's generated controversy. You know, in that program we provided for substantial increases in financial aid for students. And there are some people who said, 'Well, that might be a good thing to do, but what's that got to do with getting the economy going?' I beg to have a different view. I think when a family doesn't have to sell its house in order to send its kids to college, that's stimulative. I think when you don't have to cut back on every other expenditure to send a kid to college, that's stimulative. And as the father of two twin daughters who are in college, I can tell you that when you put money in their hands, they don't save it.

[Laughter]

And that's stimulative as well!

[Laughter]

So the first part of our program is doing things that are long overdue, putting people to work, getting energy back in this economy.

The second part of the program is what the President refers to as his Financial Stability Program. I've spent some part of my life near this world at Treasury and in some of the research I did in the financial world. And I can tell you that there's no excuse for a good deal of what has gone on. Lending was imprudent, people came to believe that trees grew to the sky, and people spent much more time than they should have looking for moments when you could play games that were heads I win, tails the government loses.

It was wrong. They should be held accountable. New regulatory systems should be put in place so that it won't happen again. CEOs shouldn't be buying new private jets while the government is providing support to their financial institutions. And I can assure you that Barack Obama is not going to let any of those things happen.

It's tempting, it is sorely tempting to say, "To Hell with them all, we're not in any position to give any support to the banks." The banks have made enormous mistakes, particularly some of the biggest and richest ones. It is tempting.

But as the President said on Tuesday night, we cannot responsibly govern out of anger. And here's the problem. Sending our kids to college, leasing a car, buying a house, adding a room to our house, taking a vacation, a store putting goods on the shelves, your being able to plant your crop, a factory buying equipment, a business meeting its payroll, all of those things depend on credit.

And if credit shrivels up and breaks down, if banks are in no position to get funds and to lend, then no matter what the government does we are not going to have the kind of vibrant economy that we want. And that's why just as we did in the 1930s, just as we did in the aftermath of the S&L crisis, we have no choice but with the proper accountability to support the flow of credit in our economy. Just as sometimes there are unintended victims of the right policy, I cannot promise you that there will never be an unintended beneficiary of financial stability policy.

But here's what I can tell you that President Obama and Secretary Geithner are going to do. They are going to set aside the government capital that's necessary for there to be a trillion dollars in new funding to support the functioning of the market for consumer credit, for small business lending, for agricultural lending, for consumer credit. It's going to work indirectly, and it's going to work through the financial system.

It's going to solve what is a complex and aggravating but very real problem: that it used to be if you originated a farm loan or you originated a car loan there was some place you could sell it to. And so people had a strong incentive to do it, and now they don't. And that's why we need that financial support. It's not just something the Treasury is going to do. They are going to be doing it in cooperation with the Federal Reserve.

Second thing, second key component to that financial stability program is: we are going to support the nation's housing market. We had in the early part of this decade the mother of all bubbles. Some of us in the '90s had warned about predatory lending, had warned about some of the excessive guarantees from the government that were going into this sector. But people came to suspend judgment and made loans without – first they made the loans just asking you to report your income and not verifying it. Then they decided not to bother to ask. And that's all come a cropper.

But here's what we know. Those were bad mistakes. But when a foreclosure happens, a family's life is ruined, a neighborhood is damaged, and the value of dozens of other homes is reduced as well. And that's why we now need for a time an enhanced federal role in the housing market, to do two key things: to make sure that everybody can get the refinancings that come with lower interest rates. What a tragedy it is when a family that's met, paid all its bills, done everything it should, sees that its house goes down. They put \$50,000 down on a \$250,000 house. They have a \$200,000 mortgage. The mortgage is now at 8 percent. There are perfectly good mortgages available at 5 percent, and they'd like to get one of those mortgages, and the bank says only one thing. "Your house is now only worth \$200,000, so you don't have any equity, and you can't refinance your mortgage."

Thanks to President Obama's plan, that family is going to be able to refinance that mortgage and take advantage of the lower interest rates.

There's another thing that has happened far too often across this country. Somebody has borrowed money. They borrowed money on a house. They hit tough times. Mom lost her job, Dad got sick, a reset happened, they can't make the bills. In normal times they'd have sold the house, moved somewhere else. And it wouldn't have been easy, but that's what they would have done. But in today's housing market, that's not possible. And they face being thrown out on the street, with all the damages to a community that comes from a foreclosure.

No. Under President Obama's plan we are going to provide some support to and a lot of pressure and encouragement that that bank is going to renegotiate that mortgage to write down those monthly payments so that family can make payments for awhile and get back on its feet. By doing that, we are going to keep people in their houses, accelerate the day when the housing market starts to turn, and create a stronger and a healthier financial system.

Finally, and you're reading about this in the headlines every day--the President is going to make sure, Secretary of Treasury Geithner is going to make sure, that we don't allow the kind of collapses of financial institutions that around the world suggests have been so terribly destructive; not because we're looking to have the government help make any banker be wealthy, but because we are looking to make sure that the flow of credit on which our jobs, our ability to spend depends, continues. And that's going to be a commitment of ours as well.

Because it's only in that way that we break those vicious cycles that I was talking about: falling prices, more selling, more falling prices, lower capital, less lending, lower capital. We're going to break the vicious cycle there too. And by breaking these two vicious cycles, the spending and the finance, we offer the best prospect of engaging all those processes I began with in the right direction.

Like I suppose the ripples when you throw a stone into a pool, one person's income goes up, they spend; that creates a job for another person. That person spends, creates a job for yet another person. That spending enables a family to meet its payments, to stay in a house that otherwise would have been sold. Less softness in house prices, healthier banks, more lending. And the process all operates in the opposite direction towards recovery.

Our problems were not made in a week or a month or a year. And they will not be solved in a week or a month or a year. But they will be solved. Our economy will return to being an economy that can find a job for everyone who's willing to work. Our economy can provide the finest public systems of airports and highways and schools and facilities of any in the world.

Our capacity for innovation can be driven once again by ever-expanding markets. And we can look back on this period, we *will* look back on this period, as a period that was painful and a period that was difficult, but also a period when we made profoundly important investments as a country, when we learned profoundly important lessons about responsibility, and when we built a foundation for an even greater prosperity in the future.

That is what I see as the economic outlook for the United States in 2009.

Thank you very much.

[Applause]